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With more than 20 years of experience in the asset management industry, Areca Capital Sdn Bhd CEO Danny Wong recognised the signs of an impending crisis in January and quickly took action. His strategy paid off and the firm's equity portfolios did exceedingly well for the year ended June. Turn to Page 6 for the story.

OUTPERFORMING DURING A PANDEMIC

BY **VANESSA GOMES**

When financial markets began to fall due to fear of the Covid-19 pandemic, Areca Capital Sdn Bhd CEO Danny Wong and his investment team had already set aside more cash than many of their peers. At end-March, the team deployed much of that cash into sectors that would eventually outperform.

"[At end-March,] I asked my clients to invest. My peers — many of whom were not holding as much cash as we were — thought I was very gung-ho to go in at that time. But luck was definitely on our side," says Wong.

"We decided what to do early on and things happened exactly as we had expected, so we benefited a lot from our strategy. We believe that holding a high level of cash, quickly reducing our holdings in other sectors and redeploying our assets heavily into healthcare and technology stocks at the right time led to the outperformance of our equity portfolios for the year ended June 26. We only employ this strategy when there is a severe economic crisis.

"For example, we had raised 40% cash at that point for the Areca equityTrust Fund. We even held up to 78% cash for the Areca Dividend Income Fund sometime in March. And at the end of the month, the fund managers deployed the cash to buy stocks."

The firm's equity funds have performed very well since the start of the year. According to data provided by Lipper, the Areca Dynamic Growth 2.0 Fund saw a growth of 41.39% and 56.45% over the three and six months ended June 26 respectively while the Areca equityTrust Fund saw a growth of 29.42% and 3.29% respectively. Both funds are in the top 15 of the Equity Malaysia (non-Islamic) category in the *The Edge*-Lipper fund tables, outperforming the average returns of 19.22% and -3.38% over three and six months respectively.

Meanwhile, the Areca Dividend Income Fund is an outperformer in the Equity Malaysia Income (non-Islamic) category, with a return of 40.28% and 19.21% over three and six months respectively. It is currently ranked No 2 and No 1 in those two periods respectively.

Like any business, the first thing Areca Capital did when the pandemic hit was to protect its assets — its employees, stakeholders and investors. Wong says the company had started implementing precautionary measures since Chinese New Year in January.

"We reviewed our business continuity plan. So, when the lockdown happened, we were well prepared because we were already working from home in February. Although we were considered an essential service during the Movement Control Order (MCO) period, we reduced our travelling and made sure that there was minimal staff in the office," he adds.

"Once we settled the things on the employee and business side, we focused on investors and our funds. While the performance of our funds was down due to the market sell-off in March, the good thing was that we were able to inform investors about this in advance and prepare them for it. So, our investors remained calm. We count this as a blessing as we have held their hands for so many years that they understood our strategy."

MOHD IZWAN MOHD NAZAM/THE EDGE

> We believe that holding a high level of cash, quickly reducing our holdings in other sectors and redeploying our assets heavily into healthcare and technology stocks at the right time led to the outperformance of our equity portfolios for the year ended June 26. > **Wong**

The only challenge that the company faced was its inability to meet face to face with its investors, who are largely in the mass affluent and high-net-worth categories. Wong says that at Areca Capital, the interaction with investors is personal as he still believes that investing needs a personal touch. But the company quickly found a way to adapt and dial up its online engagement with existing and potential clients through webinars and phone calls.

Although Areca Capital did see some redemptions in mid-March, the amount was minimal and did not impact the value of its assets under management and advisory (which includes third-party funds it distributes) that month. Instead, the company saw many of its clients topping up their investments.

"Any dip that we saw in our assets under management and advisory in March from the redemptions was immediately offset by the additional money coming in from our investors. Our clients, many of whom have been with us long term, remained calm and topped up their investments with us," says Wong.

"They knew we were raising cash and we told them, 'If the performances of our funds are affected in the short term, do not worry as they will recover very fast. And in hindsight, that was the right strategy. Many of our investors made money during this time, with some making up to 40%."

The firm saw a total growth of 8% in assets under management and advisory from January to May. It hit a historical high of RM1.8 billion under management and advisory at end-June, up from RM1.6 billion at end-March. Of this amount, about RM100 million is currently in third-party funds.

Wong believes that in the long run, the intrinsic or underlying value of the funds will prevail, where the fundamentals of the stocks or portfolio will prevail over external noise. In the short term, however, there are two factors affecting market movements — liquidity and risk appetite.

"Over the past three years, the strategy of our funds has remained the same. We have always been active and agile in our sector and stock selection. We used to have healthcare and technology stocks in our equity portfolio, except we made some tactical calls in the last three months to focus on both sectors," he says.

"Fixed-income funds are managed in a structural way and we take the time to analyse the underlying value. As long as the underlying value is strong, we will see this kind of performance."

The company has seen its assets under management and advisory more than double to RM1.8 billion from RM800 million two years ago. Wong attributes this to two key factors.

"The consistent performance and track record of our flagship fund — the Areca equityTrust Fund — over the past 10 years have helped create greater awareness among investors. We celebrated the 10-year milestone in 2017. It became a double celebration when we took home the award for Best Equity Malaysia in the 10-year category, in addition to the wins in the three and five-year categories, at *The Edge*-Thomson Reuters Lipper Fund Awards 2018. We saw an increase in investments after that," he says.

"Another contributing factor over the past two years has been the upskilling of our unit trust agents, who have become financial planners. We have also hired more financial planners. By using an advisory-based model rather than just selling individual products, we have seen an increase in the number of new investors as well as the average investment amount."

Areca Capital set up its online investment platform last year so that its investors could top up their funds without having to go to the bank or its office. Now, the company is working to set up an onboarding system for new clients, where the necessary due diligence and electronic Know Your Customer (e-KYC) process will take place digitally. Currently, new investors have to undergo the process in person with their adviser before they can invest on the platform.

"We are testing the system now and are planning to launch it in the next quarter. Through this method, new investors can buy into our funds online. We will also distribute third-party funds and our investors will have access to these as well," says Wong.

However, this does not mean that Areca Capital will shift its focus to digital products and operations, he reiterates. "I believe investment is a high-touch business. Technology will come about and we will have to embrace it to facilitate things such as logistics, account opening and the transfer of money. However, people will always come first and the machines later."

The performances of the Areca equity Trust Fund and Areca Dividend Income Fund over the past five years

FUND	3 MONTHS ENDED JUNE 26 (%)	RANK	6 MONTHS ENDED JUNE 26 (%)	RANK	1 YEAR ENDED JUNE 26 (%)	RANK	3 YEARS ENDED JUNE 26 (%)	RANK	5 YEARS ENDED JUNE 26 (%)	RANK
Areca equity Trust Fund	29.42	7	3.29	13	21.4	1	42.07	1	83.80	1
Equity Malaysia (non-Islamic) — average returns/no of funds	19.22	68	-3.38	68	-3.27	68	-6.39	62	6.56	58
Areca Dividend Income Fund	40.28	2	19.21	1	33.32	1	35.86	1		
Equity Malaysia Income (non-Islamic) — average returns/no of funds	19.42	18	-4.63	18	-4.35	18	-7.63	18		

The company obtained an algorithm machine early this year to facilitate the management of its funds. The algorithm will be used to help its fund managers rebalance funds quickly, based on the parameters set by the fund managers themselves.

"We are doing it this way because we do not believe in having it completely done by an algorithm. We already have [the machine] but have not used it officially in our funds yet because we need to talk to our investors first [to convince them of the benefits of doing so]," says Wong.

"However, we plan to launch a fund that will employ the use of an algorithm. This will be a global fund and we will probably launch it in September because while the Malaysian market is stable, the global market is not. We are just waiting for things to stabilise."

FOCUS ON LONG-TERM INVESTMENTS

Having spent more than 20 years in the asset management industry, Wong has experienced several economic or financial crises. While each crisis was different, all of them eventually saw a recovery.

Wong says there are two types of crises that affect financial markets. The first is what he calls "hit and run" crises, which come and go quickly. These are usually health-related outbreaks, like Ebola and Severe Acute Respiratory Syndrome (SARS). The second is economic crises such as the 2008 global financial crisis and the 1997/98 Asian financial crisis.

"[The latter] occurs due to structural problems in the economy, perhaps overborrowing, which eventually creates and challenges its fundamentals. It takes a longer time to recover from this, usually about two to three years," says Wong.

"The 'hit and run' type is very short term. It could last a year or just six months, unless it is prolonged and affects the economy. It is only a short-term disruption to the economy and usually not prolonged."

Contrary to what many people are expecting, which is a prolonged global recession this year or next, Wong believes that Asia will see a fast recovery in terms of the Covid-19 pandemic and the regional economy. He says the global economy will see a V-shaped, but not a "deep V-shaped", recovery.

"It is not a recession to me because globally, [governments and their citizens] have generally adopted a cautious stance on the pandemic. This pandemic is actually more aggressive than previous ones. But in this part of the world, I think Asians have been more obedient [to the stringent measures implemented by their governments]. So, the recovery will be quick," says Wong.

"When a recovery is fast, there will be fewer job losses and businesses in general will still be around. People just need to make sure there is enough liquidity to survive during this period and the economy will rebound."

With that in mind, investors should look beyond the second half of the year when making investment decisions, he says. He believes that post-pandemic, the focus will be on Asia because growth continues to be mostly seen in this region.

While developed countries have been a dominant force in terms of economic growth, things have changed in the last 5 to 10 years. The affluent population in Asia has been growing, especially in China and India. In that respect, consumer spending will be a key driver of growth over the next two to three years, says Wong, who believes in the potential of Asian consumers.

"Who consumes more? I think the wealthy people do. Now, with the affluent populations of China and India getting bigger, their spending power is getting stronger and will eventually overtake countries like the US," he says.

"I believe that over the next 10 to 20 years, growth will come more from Asia, especially in highly populated countries like China and India. So, we will shift our focus to the whole of Asia."

In the first half of the year, stocks in most sectors underperformed, except those in healthcare and technology, says Wong. In fact, the two sectors have performed well and will provide some growth in terms of revenue.

However, he says it is best not to just focus on sectors when deciding where to park your money, but rather look at companies' valuations such as share value and cash flow. "If [a company] cannot survive the next six to nine months, then I think the stock needs to be avoided."

But looking at how things are progressing in Malaysia and around the world, Wong believes that other sectors — such as banking and construction — could catch up over the next six months. "[This will happen] as long as our economic activity gradually resumes," he says.

"I think the MCO will be fully lifted this month or next and things will return to normal. Just look at our Covid-19 cases. It is in the single digits now and most of them have imported cases. As long as people who have lost their jobs find new ones and businesses recover, the economy will bounce back from the lows."

"But a few sectors have been badly hit, like tourism and hospitality. These have to be avoided temporarily. However, if you know of individual stocks in these sectors that will do well, you will need to see if they have enough cash flow to survive the next six months to one year."

In early June, the Malaysian stock market saw heavy retail investor participation as the price of stocks in certain sectors — like glove makers and banks — surged in value. Wong believes that one of the reasons for this is that more people are staying at home during the MCO and are not able to play the lottery or visit casinos. Thus, they want to try their luck in the local market since there are no other avenues in the short term.

Wong says another likely reason for this phenomenon is that a large percentage of the country's mass affluent have sought to rebalance their wealth and investment plans. "There has been a shift in mentality among the mass affluent and wealthy investors because of the low yield environment.

"They used to put their money in fixed deposits and the bond market to generate returns. But these two instruments may not give them the kind of yield to hedge against the current economic situation.

"Of course, some people think this is another chance to go into the market and buy low. After living through so many crises and watching the markets rebound, I think people do not want to miss out. So, they are taking the opportunity to invest in the current economic environment."

Wong advises investors not to read into the "noise" that is being shared on social media platforms. Instead, he reiterates the importance of looking at the fundamentals of a company before investing in it.

"People will tell you this and that. Ignore it and do your homework by focusing on the fundamentals, and not the external noise. Read the news and analyse it," he says.

EXPANDING THE WEALTH MANAGEMENT ARM

In January last year, Wong spoke to *Personal Wealth* about Areca Capital's plans to build up its wealth management arm and provide personalised advisory services to the mass affluent. This push came about as this segment was growing in Malaysia.

While foreign private banks were already serving the ultra-high-net-worth segment, Wong believed that those with a total net worth of between RM20 million and RM50 million were being underserved. As a result, the company began hiring more licensed financial planners.

Today, Wong says this new wealth management model has grown rather quickly. In fact, the company is in the process of applying for an investment advisory licence. By doing so, it will be able to expand into the private wealth segment.

"With an investment advisory licence, we will be able to advise investors on their private investment plans. For example, if one of our clients is approached by someone to invest in a start-up and he does not know whether he should put his money there, we will be able to advise him," says Wong.

"What we want is to focus on advising clients and we are progressing quite well. Our workforce has grown to about 70 people from about 40 previously, most of whom are licensed financial planners and marketing support.

"Our assets under management and advisory have also grown because of [the new] appointments. Most investors top up [their investments] with us because we already have the service and they are starting to appreciate our advice."

Wong says the company's front-end fee is very low because it would rather generate income from the investors' annual management fee than from sales fees. This also encourages investors to stay with the firm for a longer term.

"Clients are starting to appreciate this business model because they end up making more money. A big contributing factor to the performance of the fund is actually its stability, and not just the fund manager's skills.

"You can be the best fund manager in town, but if the fund size is not stable, if investors keep withdrawing money and you cannot do anything, you will have to keep selling your holdings. And if you keep selling, you run the risk of crystallising your loss at the wrong time.

"So, our model is the other way around. When investors stay put and top up more cash in a downturn, like in March for our case, we will have the cash to buy into the market. That is why we were able to perform." E